

ENRON CORPORATION
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LAY: KENNETH LAY
FASTOW: ANDREW FASTOW
BOONE: KEVIN BOONE
GLISAN: BEN GLISAN
LAUNER: CURT LAUNER
RIEKER: PAULA RIEKER
KNOTT: DAVID KNOTT
NILES: RAYMOND NILES
SMITH: ROSE EILAND-SMITH
GRUBMAN: RICHARD GRUBMAN
CAUSEY: RICHARD CAUSEY
KAMINSKY: HOWARD KAMINSKY
NORDBY: DAN NORDBY
FLEISCHER: DAVID FLEISCHER
DIETERT: JEFF DIETERT
OLSON: JOHN OLSON
UF: UNIDENTIFIED FEMALE
UM: UNIDENTIFIED MALE
UI: UNINTELLIGIBLE

1 UF: Good morning, everyone and welcome to the Enron conference call. This call
2 is being recorded. At this time, I would like to turn the call over to Chairman
3 and Chief Executive of Officer, Mr. Kenneth Lay. Please go ahead, sir.

4 LAY: Good morning. This is Ken Lay. Thank you for joining us today. I have with
5 me in the room here Mark Frevert, the Vice Chairman; Greg Whalley,
6 President and Chief Operating Officer of Enron; Rick Causey, Executive VP
7 and Chief Accounting Officer; Andy Fastow, Executive Vice President and
8 Chief Financial Officer; Steve Kean, Executive Vice President and Chief of
9 Staff; Mark Koenig, of course, Executive Vice President of Investor Relations;
10 and Ben Glisan, Managing Director and Treasurer. We decided yesterday to
11 set this call to address questions and concerns raised over the last few days.
12 To say the least, we are very, even extremely disappointed with our stock
13 price, particularly since our businesses are performing very well, and we are
14 continuing to conduct business as usual. We recognize, however, that these
15 are uncertain times in the capital markets and we will continue to hold
16 additional investor calls, as needed to pro-actively communicate essential
17 information to all of our stakeholders. There has been a lot of recent attention
18 to transactions Enron previously entered into with LJM, a private equity
19 partnership. Let me reiterate a couple of things. We clearly heard investor
20 concerns earlier this year, and Andy Fastow, Enron's Chief Financial Officer,
21 ceased all affiliations with LJM. And as reported in our second quarter 10-Q
22 filing, LJM is no longer a related party instrument. During the third quarter,
23 we took additional steps and terminated the finance arrangements with LJM.

1 We announced yesterday that we had received a request for information from
2 the SEC regarding certain related party transactions. As we said yesterday, we
3 welcome this request and the opportunity it provides us to put these matters to
4 rest. We are cooperating fully with the SEC, and we believe everything that
5 needed to be considered and done in connection with these transactions was
6 considered and done. They were reviewed by internal and external auditors
7 and lawyers, approved by Enron's Board of Directors, and appropriately
8 disclosed. As you can appreciate, while this matter is pending, we cannot say
9 much more about it, at least now. However, a number of other unrelated
10 questions have been raised, and we will do our best to address those here.
11 First on the equity reduction. Our third quarter earnings conference call last
12 Tuesday included information associated with a \$1.2 billion reduction in
13 shareholders' equity that would ordinarily have been disclosed in our 10-Q to
14 be filed in mid-November. There have been a number of questions
15 surrounding the equity adjustments since the call. So we want to take the
16 opportunity to clearly spell out the basis of that adjustment. A structured
17 finance vehicle in which LJM was an investor, was established to mitigate
18 volatility associated with certain of Enron's merchant investments, including
19 investments in The New Power Company, technology and other investments
20 of Enron. In conjunction with the recent termination of these vehicles, Enron
21 recorded a \$1.2 billion reduction in shareholders' equity and a corresponding
22 reduction in notes receivable. These adjustments were the result of Enron's
23 termination of obligations to deliver Enron shares in future periods. Although

1 this obligation equated to 62 million shares, and this was reflected in our fully
2 diluted shares outstanding, the obligation to issue shares in the future no
3 longer exists. And as such, the shares will no longer be factored into the, our
4 EPS calculation. The 10-Q will reflect the final, proper reduction of 62
5 million shares, as calculated, using Enron's actual share prices during the third
6 quarter. If you have additional questions on these adjustments, I will address
7 them at the end of the call. I now would like to turn the discussion over to our
8 CFO, Andy Fastow, to discuss our current liquidity position and credit rating.
9 I might add that I and Enron's Board of Directors continue to have the highest
10 faith and confidence in Andy, and believe he is doing an outstanding job as
11 CFO. Andy?

12 FASTOW: Thank you very much, Ken, and thank you for those last comments. And we
13 have, in fact, received questions recently about both our liquidity and the
14 outlook for the Enron Corp. credit. I'd like to briefly address both of these
15 issues now. First, regarding liquidity. Enron expects to continue to have
16 sufficient liquidity to conduct normal operations and to meet all of its
17 projected capital requirements. We have committed credit facilities with
18 domestic and foreign banks, which provide for an aggregate of \$3.35 billion in
19 credit. These bank lines are undrawn, but act as the backstop for the
20 company's issuance of commercial paper. Additionally, the company utilizes
21 on a consistent basis, uncommitted lines in excess of \$500 million. With
22 respect to commercial paper, currently our commercial paper balance is
23 approximately 1.85 billion, and that's net after consideration of cash balances

1 on deposit, resulting in approximately \$1.5 billion of liquidity available from
2 committed sources today. We continue to issue commercial paper, and we
3 have not drawn on our bank revolvers. Additionally, we have not experienced
4 any material increase in our funded CP balances over the past two weeks. Our
5 policy of maintaining liquidity levels under committed lines of credit that are
6 a multiple of projected cash requirements remains in effect. In addition to the
7 \$1.5 billion in unused commitments, we expect to receive in excess of \$600
8 million in proceeds from asset sales, and these were discussed in the third
9 quarter conference call. These proceeds should be realized in the fourth
10 quarter, perhaps as soon as within 30 days. And I would like to remind
11 everyone that we have entered into a definitive agreement to sell Portland
12 General to Northwest Natural Gas for approximately \$1.9 billion, and the
13 assumption of \$1.1 billion in Portland General debt. Subject to normal
14 regulatory review, this transaction is scheduled to close by the end of 2002.
15 Also with respect to liquidity, we have spoken to our key banks, all of our key
16 banks. And based on these conversations, we expect to have their continued
17 support. Now, turning briefly to the credit ratings, both Standard & Poor's
18 and Fitch have confirmed our triple B plus rating, and have kept us on stable
19 outlook. We are currently rated B double A one at Moody's. That has not
20 changed. However, Moody's has placed Enron on review, and we're now
21 working with Moody's to address specific questions in order to facilitate their
22 review. We understand that our credit rating is critical both to the capital
23 markets, as well as to our counter-parties. Ken? Back to you.

1 LAY: Great. Thank you, Andy. As we discussed in the earnings conference call last,
2 week, our third quarter recurring operating results were outstanding, with a 26
3 percent increase in recurring earnings per share, and a 65 percent increase in
4 our physical volumes. These results reflect the superb performance of our
5 core wholesale, retail and pipeline businesses. We are continuing to stay
6 focused on our businesses, and remain well positioned for continued success.
7 And with those brief comments, we would welcome your questions. Is the
8 operator there?

9 UF: Yes. Are you ready to take questions?

10 LAY: We're ready for questions.

11 UF: Great. Thank you. The question-and-answer session will be conducted
12 electronically. If you would like to ask a question, please do so by pressing the
13 star or asterisk key, followed by the digit one on your touch-tone telephone.
14 We will proceed in the order that you signal us. And we'll take as many
15 questions as time permits. Once again, please press star one, on your touch-
16 tone telephone to ask a question. And we will pause for just a moment.

17 LAY: Operator, you got somebody on? Hello.

18 UF: We'll take our first question from Kevin Boone with Bear Stearns.

19 BOONE: Hi. Can you tell me about the uncommitted bank facilities you have, just in
20 terms of the size and potential maturity dates for those revolvers?

21 LAY: Ben Glisan, please.

22 GLISAN: Certainly. The largest of them is a \$550 million loan sales facility that JP
23 Morgan Chase agents, on our behalf. That is a program that supplements our

1 CP program. And we issue under it actively and in fact, at the moment, I
2 believe we have approximately 350 million dollars funded under (UI).
3 BOONE: OK. That's the only - that's the only revolver you have outstanding, other than
4 the ones we use for CP backup?
5 GLISAN: That's the only uncommitted facility we have outstanding, yes...
6 BOONE: OK.
7 UM: (whisper) ...in addition to the 3 billion...
8 GLISAN: ... in addition to the committed facility that Andy spoke to, totaling 3.35
9 billion.
10 BOONE: But those are - those are again, for - primarily for CP backup. Is that right?
11 GLISAN: The \$3.35 billion of revolving credit - committed revolving credit facilities are
12 composed of three facilities. One is \$1.75 billion 364-day facility, which is
13 due in May of '02. The second is a \$1.25 billion five-year facility due in May
14 of '05. And then, the third is a \$355 million 364-day insurance wrap, A-1 P-1
15 facility due in March of '02. All of those are committed facilities. None of
16 them have been drawn and serve to back up our CP program.
17 BOONE: I see. Great. That was the information I needed. Thanks.
18 GLISAN: OK. Yes. I think it's important to note, on those facilities, there is no MAC
19 clause and there's a single financial covenant requiring debt to cap, not to
20 exceed 65 percent, which is very lenient. And we, you know, feel very
21 confident and comfortable in all of the terms and conditions of those facilities.
22 UF: Mr. Boone, was there anything further?
23 BOONE: No. That's it. Thanks.

1 UF: We'll take our next question from Curt Launer, from CS First Boston.

2 LAUNER: Good morning. Curt Launer, from CSFB. I just want to go back and try to
3 recreate some of the accounting that went on during the year 2000 pursuant to
4 what was already disclosed in the footnotes. In other words, had the
5 partnerships not been part of certain of the transactions during the year 2000
6 and, in fact, if we were trying to recreate the income statement, what would
7 have or could have the earnings been in broad terms? And then, if we could
8 move that question ahead and talk about where we would be in the year 2000
9 and 2001, knowing that you've talked about \$1.80 into 2001 and \$2.15 in
10 2002. It looks to me like those would still be the estimates we would use
11 regardless of the impact of the partnerships. But I do want to go back to 2000
12 first and establish the base relative to the broadband and other entries that the
13 partnership was involved in.

14 LAY: Can we do that? Rick Causey, Chief Accounting Officer.

15 CAUSEY: Curt, it's Rick Causey. The best guidance I can give you on that is that there
16 are disclosures that show the impacts of the transactions with these entities in
17 our related-party footnotes and I would refer you to those as it relates to
18 looking backwards. If it relates to forward estimates, I can't comment on that.

19 LAY: The \$1.80 for this year and the 2.15 for next year will remain unchanged,
20 unaffected.

21 LAUNER: OK. That is the critical issue, obviously. But I did want to go back to 2000
22 and reference some of the things that have already been disclosed. There's \$35
23 million relative to dark fiber sales and so on and so forth. And to some degree,

1 those transactions could have occurred with or without the partnership. But
2 the fact of the matter is, they did occur with the partnership in place. So if
3 that's the order of magnitude that we're talking about, we know how to adjust
4 for that.

5 CAUSEY: Well, that's correct. Again, what I referred to was, in fact, the revenues
6 associated with the partnerships that were disclosed have always been
7 disclosed as related-party transactions. You are correct in that obviously these
8 transactions were done with the partnerships. They could have obviously been
9 done with other entities, as well, and if that were the case, would have yielded
10 similar results.

11 LAY: Yes. I think that's the answer, Curt. I mean, I think they were done at the
12 partnerships. But they could have been and would have been done elsewhere.
13 And there would have been no impact on the - on the earnings.

14 LAUNER: OK. Thank you. That is the key question.

15 UF: We'll next take a question from Jonathan Reiss, with John Levin & Company.
16 Mr. Reiss?

17 RIEKER: Operator, let's continue.

18 UF: OK. We'll take our next question from David Knott, with Knott Partners.

19 KNOTT: You, when you were at the Lehman Brothers conference, promised to be more
20 transparent with your financial disclosure. And yet, you just issued a quarterly
21 release and you don't give us a balance sheet. Is there a reason for that?

22 LAY: David, in fact, the balance sheet, it usually doesn't come together until a week
23 or so after the earnings are, in fact, concluded.

- 1 KNOTT: When will we be provided with one?
- 2 CAUSEY: Well, we typically provide that at the time of the 10-Q. It will be filed,
3 obviously, by November 14th.
- 4 LAY: What we have...
- 5 KNOTT: Are you taking the full time to file it?
- 6 CAUSEY: That's historically what we've done. We will endeavor to file it as soon as
7 possible. Typically, that's been on the, know you (UI).
- 8 KNOTT: Well, if the balance sheet's available a week after the -- it's put together a
9 week after the earnings, could it not be made available sooner?
- 10 LAY: David, we will look at that. And, indeed, in future quarters, we may even
11 reschedule the time when our earnings release comes out so, in fact, we can
12 provide both earnings and balance sheet at the same time.
- 13 KNOTT: Thank you, because it'd be helpful.
- 14 LAY: Next question.
- 15 UF: We'll next - take the next question from Raymond Niles, with Salomon Smith
16 Barney.
- 17 NILES: Good morning. One of my questions has been asked already in regard to the
18 earnings. But I want to just clarify so I fully understand it with regard to the
19 reduction in shares outstanding and what the opposite entry is that results in
20 no net change in EPS. Maybe you can once again, just clarify that, the 62
21 million shares.
- 22 CAUSEY: Ray, the - I'm not sure of your last point about no change in EPS. It is correct
23 that the 62 million shares were - was the impact on fully diluted shares

1 outstanding in the third quarter. In the fourth quarter, there will be no shares
2 outstanding associated with this simply because obviously, since the
3 transaction has been terminated. Does that answer your question, Ray?

4 NILES: So shares outstanding is reduced by 62 million shares for purposes of the EPS
5 calculation?

6 CAUSEY: That is correct. There's - the number was approximately 912, I believe, million
7 shares at the third quarter. And you'll see something roughly 60 million short
8 of that. Obviously, there's other things that impact that quarter to quarter. But
9 expect something more in the 850 range.

10 NILES: Would there have been any reason then to increase earnings guidance on an
11 EPS basis?

12 LAY: Ray, we've not because obviously, you know, we started off the year with
13 guidance of \$1.70 - \$1.75. We've increased that to \$1.80. We've held that
14 \$1.80 despite, obviously, the economy going somewhat softer. And we think
15 we can certainly make the \$1.80. But we certainly haven't had an increase
16 (UI). But we still - we still have held at 2.15 for next year, at least - at least for
17 the time being.

18 NILES: OK. Thank you.

19 UF: We'll next take a question from Rose Eiland-Smith, with White Asset
20 Management.

21 SMITH: Good morning. I have three questions. The first question is about the bank
22 commitment covenant for debt to capital to remain lower than 65 percent.
23 Could you define for us what constitutes debt in that covenant calculation and

1 indicate whether there are any conditions under which the Marlin Water Trust
2 or other off-balance-sheet financings would be included in that calculation?

3 GLISAN: They are not. I would hesitate to attempt to define the debt use. You recall, the
4 definition of debt, as I don't have the revolver here with me, but those
5 instruments are not included in that calculation.

6 SMITH: OK. So, there would be no, say, rating change triggers or anything that will
7 cause them to become part of that debt calculation?

8 GLISAN: That is correct.

9 SMITH: OK, thanks. Second question is about Marlin Water and the other trusts. With
10 near-term debt maturities, what is Enron's current plan for paying those
11 maturities in terms of your funding mechanism? Are you focused now on
12 asset sale proceeds, or do you plan to proceed with marketing, convertible
13 preferred held in trust? And the other part to the second question is about the
14 rating agency requirements for retaining or maintaining Enron's current
15 ratings and the impact of the funding mechanisms used for these near term
16 maturities on your ratings?

17 GLISAN: Certainly. In the case in each of the Osprey transaction and the Marlin
18 transaction, the intent is to repay those financings through asset dispositions.
19 If in fact we have to supplement the proceeds of asset dispositions with equity
20 proceeds, we would do so.

21 FASTOW: This is Andy Fastow. Let me add to that, that as mentioned by Ken in the third
22 quarter call and we briefly touched on it here again today, we have, I think,
23 begun in earnest our asset disposition program. You've seen announcements

1 over the course of the last couple of months announcing the sale of
2 agreements - definitive agreements for the sale of our CEG RIO property in
3 South America, Eco Electrica, our India E&P properties, as well as Portland
4 General. And so, if you begin to add all of those cash proceeds together,
5 there's a significant amount of cash that should be received by Enron if, upon
6 closure of these transactions.

7 SMITH: OK. I understand that. And I guess it's in light of, you know, having heard
8 about those prior plans that I asked the B part of the question, which relates to
9 the rating implications of using asset sale proceeds to make these payments,
10 given that the trust structures were originally contemplated to be off balance
11 sheet in order to help preserve Enron's rating on the premise that Enron
12 wouldn't need to support these debt maturity repayments by selling their own
13 assets.

14 GLISAN: Well, I have two comments to that. One, over the life of these trust structures,
15 Enron has in fact issued a sizable amount of equity, principally through its
16 deferred compensation program. And so, from that perspective equity has
17 been issued over the life, and that was expected by the agencies. Secondly,
18 certainly we believe that we will dispose over time the assets held by the trusts.
19 We have discussed with the agencies that it may well be that we dispose not
20 only of assets of the trust but additional assets as well. And the agencies have
21 taken those comments into consideration in their current ratings.

22 SMITH: What assurance do you have that if you do use asset sale proceeds to pay off
23 these near term maturities that the agencies won't change their leverage

1 calculation to put all your off balance sheet debt on balance sheet based on
2 this demonstrated support of off-balance-sheet financing that occurs with the
3 repayment of near term maturity with asset sale proceeds?

4 GLISAN: Again, we have fully discussed these mechanics multiple times with the
5 agencies and we remain confident and comfortable with the mechanics as
6 described.

7 SMITH: Okay. Thanks. My last question is about CP finance fundings and cost trends.
8 Can you just comment on how recent CP issuance costs compare to, say, you
9 know, year-over-year costs or whatever in terms of giving us an idea of how
10 much those costs may have increased?

11 GLISAN: Sure. As you know, the base rate has declined substantially. So, the all-in rate
12 is very inexpensive on historical terms. The spread is wide by historical
13 standards, but not unreasonably so. Yesterday's cost of placement of CP was
14 approximately three percent annualized. It pushed CP out into November.

15 SMITH: And how does that spread compare, say, year over year or...

16 GLISAN: The spread in that market is quite volatile so, at times the spread could be as
17 tight as 10 to 15 basis points to LIBOR and, at times, as wide as 50 or more.
18 So, by, you know, by historical standards, it's wide, but not unprecedentedly so,
19 especially when there are forms of disruption in the CP market and multiple
20 users in the H&P market special.

21 SMITH: OK. So, it's on a 50 or more end of that spectrum right now?

22 GLISAN: Yes.

23 SMITH: OK, thank you.

1 UF: We'll next hear from Richard Grubman with Highfield Capital.

2 GRUBMAN: Yes. Hi. Good morning. To follow up on the last questioner's inquiry, the
3 assets that you announced for sale, such as Portland General, are not assets of
4 Marlin or Osprey. And I guess in light of the 3.35 billion of capacity you
5 outlined against which one billion eight-fifty of CP is already drawn, Marlin -
6 my question is about reserves with respect to Marlin. Marlin's got roughly a
7 billion dollars of financing outstanding due in the next 18 months or so. All
8 the proceeds from Marlin's debt issue were basically paid to repay the loan to
9 Enron Water, which left Marlin with a third of Azurix, which based on the
10 math you gave us on the write down of your own shares of Azurix last week is
11 worth about \$100 million. So, it would appear that the support of your
12 imminent strip remain in that case to the tune of almost \$1 billion. Have you
13 taken any reserves against that liability?

14 CAUSEY: This is Rick Causey. The point I would make is that the Marlin Trust structure
15 has assets in it, as you said of Azurix - obviously Azurix - I'm not sure of the
16 math you've done to come up with that calculation. The point I would make is
17 that Azurix continues to owner of Wessex Water, which is a very successful
18 utility with a lot of value, obviously located in the U.K.

19 GRUBMAN: Well, again, you valued Azurix at about \$900 million when you bought the
20 third in at eight and three-eighths a share. And you own two thirds and the
21 Water Trust owns half and Marlin owns - I don't know if it's two thirds, but
22 Marlin owns half of that. So, that's a third. So, if, if so, Marlin's stake is 300
23 on the original 900 and then you wrote your 600 down 287 after tax, or

1 roughly 400 pretax. You wrote it down by two thirds. So, rough numbers, the
2 300 at Marlin becomes 100 and there are no other assets other than the block
3 of Azurix. And Azurix, as you say, owns Wessex. Azurix also has close to \$2
4 billion of its own debt. So, if the piece is worth the same amount in both
5 pockets, and my question, I guess, still stands? It looks to me like you have
6 close to a billion dollar liability that is going to be supported exclusively by
7 Enron's support agreement. And I'm curious why to the last question at this
8 point there have been no reserves or no inclusion of that liability in the overall
9 liabilities of the company.

10 CAUSEY: I think the only clarification that might help you, Richard, is that the, the loss
11 we recorded in the third quarter associated with our portion of Azurix's
12 impairment of certain assets on their books, not a write down of our
13 investment in Azurix as a whole. So, we had to, we picked up our equity
14 interest, in their income or loss. In this case a loss, we associated with the
15 write down of certain assets that are now being held for sale by Azurix. Those
16 assets were written down to net realizable value, basically market value, to
17 reflect that they're being held for sale. We picked up our share of that loss as
18 would be required under accounting, equity accounting. The remaining assets
19 of Azurix, principally Wessex, were considered in considering both Azurix's
20 overall position and any other additional impairments that needed to be made
21 and ours and we're comfortable with where we stand on those.

22 GRUBMAN: So, in the best case, the asset's worth 300 million, in which case the deficiency
23 is 700 million. What's...

1 CAUSEY: I would point out obviously that you can't - you're mixing historical cost
2 accounting and market value, and any assets that have value in excess of what
3 they may be on the books that are not written up.

4 GRUBMAN: OK. So, please tell us what the \$1 billion worth of assets at Marlin is.

5 CAUSEY: It's Azurix and Wessex Water.

6 LAY: It's mainly Wessex Water, Richard. And...

7 GRUBMAN: But the Wessex is owned by Azurix.

8 CAUSEY: Correct.

9 GRUBMAN: So, you can't count both. If the Wessex is owned by Azurix, what's the Azurix
10 worth including Wessex?

11 CAUSEY: Again, the charge taken in the third quarter reflects to - relates to reflecting all
12 assets held for sale by Azurix to market value, and we picked up our share of
13 that.

14 GRUBMAN: Fine. Let's go back to the transaction where you bought a third of Azurix for
15 roughly...

16 LAY: Richard, let me intercede here for a minute. Wessex Water is the asset
17 remaining in Azurix. That's 99 - or 90-something percent of it. And, in fact,
18 even over the last month or six weeks our outside auditors have reviewed
19 Wessex and in fact have determined that there is no impairment required.
20 Now, I know you want to drive the stock price down, and you've done a good
21 job at doing that, but I think that's that. Let's move on to the next question.

22 GRUBMAN: That's pointless. Let's...

23 LAY: Let's go to the next question, Richard. You're monopolizing the conference.

1 We've got a lot of people out there with real serious questions.

2 GRUBMAN: In deference, I would appreciate an answer to the question. That's fine if you

3 move on. I think everybody understands why. Thanks.

4 LAY: I think in fact we've answered the question, but you won't accept our answer.

5 Let's move on.

6 UF: Next we'll hear from Howard Kaminsky with King Street Capital.

7 KAMINSKY: Hi. I certainly don't want to beat a dead horse. What I would like to know is

8 there are a number of off-balance-sheet financings - Marlin, Osprey. And it's

9 very confusing to me to try to understand what the true potential dilution

10 might be to the extent that there was a trigger event. Now I'm not suggesting

11 that there will be one, but I'm just trying to gauge how much potential dilution

12 there might be to the shareholders to the extent that you were downgraded to

13 below investment grade. That's...

14 LAY: Well, I will start off with that. I mean, first of all, we'd have to be downgraded

15 three notches to go below investment grade. And there's - at least we don't

16 think there's any chance of that. But, Ben or Andy, you want to add?

17 FASTOW: That's fine, thanks. I think that says it all.

18 LAY: And, indeed, I will reemphasize, since I'm on the phone, that we are

19 committed to maintaining our rating. We've said that repeatedly. We're

20 working, obviously, with two of the three rating agencies have already

21 confirmed our ratings. Certainly, Moody's - we're working with Moody's.

22 Moody's says they want to work with us. And we are committed to

23 maintaining our ratings.

1 CAUSEY: I guess - this is Rick Causey. Just another comment on those as it relates to
2 both of those entities you referred to. They are, again, a traditional asset
3 ownership structures with underlying debt on their books. And obviously, in
4 the event of, in any event, the assets are the primary source of repayment of
5 all the obligations of those entities. And to the extent that those assets were to
6 be sold or something, that would be the primary source of repayment of any
7 debt or equity associated with these entities. Our - the double triggers that
8 have been referred to - or again at that point, any shortfall then would be,
9 would be, would fall to Enron and again be repaid with proceeds from
10 whatever source we deemed appropriate to fund those proceeds. But to answer
11 your question is a difficult one because it would require us to assume that all
12 of these were wound down today and exactly what proceeds we would receive
13 from each of the assets. But again, we feel like that the overall structures are
14 appropriate and that the assets continue to support the underlying debt.

15 GLISAN: And to Ken's point, our rating is strong and we will in fact defend it.

16 KAMINSKY: I understand. Could you just tell me what was the whole purpose behind the
17 Osprey transaction?

18 GLISAN: I could speak to that. In...

19 LAY: And this is Ben Glisan, the Treasurer.

20 GLISAN: In '97 and '98 Enron invested in a number of different areas simultaneously
21 and we were expanding a couple of our different larger businesses. That was
22 creating balance sheet expansion. And there was as fundamental capital
23 structuring decision that was made then, which was to either expand the

1 balance sheet permanently at that point or ultimately redeploy capital from
2 other sources to accommodate that incremental investment. These structures
3 accommodated that latter decision. That is precisely what occurred. So, these
4 structures provided Enron a period of time over which it could sell either the
5 assets in the structure or raise other capital, such that it would not have to
6 permanently expand the balance sheet at the time the other investments were
7 made.

8 LAY: And I will underscore again that the assets in these instruments are, for the
9 most part, traditional energy assets - power plants, gas distribution businesses
10 and so forth. And again, as Rick said, we think the value of the assets fully
11 support these, these, these instruments.

12 KAMINSKY: Well, the asset - Osprey is collateralized by the limited partnership investment.
13 I take it the real assets are held by, at Wingate.

14 GLISAN: Yes. The partnership that Osprey invests in a partnership called Whitewing...

15 KAMINSKY: Whitewing, I'm sorry.

16 GLISAN: And Whitewing has two classes of assets. One class, as Ken mentioned, are
17 traditional energy investments that are held globally, so some European power
18 stations, Central American, Latin American energy equity investments and so
19 forth, as well as some Enron stock, a convertible preferred.

20 KAMINSKY: Right. That's the re-marketable preferred.

21 GLISAN: Correct.

22 KAMINSKY: I just want to reiterate that to the extent that when these securities mature in
23 '03, if there is a deficiency, that Enron will meet that deficiency with either

1 proceeds from asset sales or equity contribution.

2 GLISAN: Yes.

3 KAMINSKY: Okay. Thank you very much.

4 LAY: And again, we think the proceeds will be, I mean based on current valuations,
5 we think the proceeds will be adequate to cover that. Next question, please.

6 UF: We'll next hear from Dan Nordby with Alliance Capital.

7 NORDBY: Good morning, Ken. A couple of questions. Let me take a stab at a worst-case
8 scenario here. And I'd appreciate you telling me where my thinking is off. On
9 this junior convert preferred, the billion dollars roughly. If by some calamity
10 the make-whole provisions got triggered by the stock price and downgrades
11 and assuming you couldn't raise a penny in assets, which of course is not true,
12 with the stock down here in the low 20s, presumably you'd have to issue about
13 50 million shares of stock to make that whole, which would be about eight
14 percent dilution. Is that a worst case scenario here on this?

15 GLISAN: Actually, for the Osprey transaction, which is the transaction you're describing,
16 in your math, which I agree is the absolute worst case, the total proceeds that
17 would need to be raised is not 1 billion but rather 2.4 billion. But that's why
18 we continue to say that asset dispositions will make up the largest component
19 of those proceeds. And, in fact, as Andy mentioned, we're well on our way to
20 raising those proceeds.

21 NORDBY: So, so that implies that to the extent you couldn't under a worst worst case get
22 anything for the assets, there'd be something on the order of, what, 16 to 18
23 percent dilution or more?

1 GLISAN: I'll have to trust your math. I don't have my calculator in front of me, but that
2 sounds correct. But remember, there are assets in Whitewing that we would be
3 selling. So, you're assuming that there's \$2.4 billion of assets in Whitewing
4 itself that we couldn't sell at all, we couldn't - that are worth zero, which
5 seems to be an awful harsh assessment. And furthermore, there's a large
6 portfolio of assets on our balance sheet that we are also looking to dispose as
7 well. And you're assuming that we could not dispose of any of those, which is
8 extraordinarily harsh given that we've outlined close to \$4 billion now of
9 eight disposition transactions.

10 LAY: And again, of course, as we said, these are traditional energy assets. But in
11 some of those power plant assets, they have long-term contracts with like A-
12 rated or AA-rated utilities that in fact justify the value that we're putting them
13 at. So, it's not a matter that all of a sudden they just collapse to zero.

14 NORDBY: Right. Yes. No, I understand that. I'm just kind of trying to test this for a
15 worst-case exposure here. I guess the second question is a little more
16 qualitative. And that is that despite your comments at the beginning about the
17 faith that the Board has in the CFO function here, there do seem to be
18 legitimate questions that can and should be raised about how significant cash
19 flow and capital has been allocated in some of these manners over the last
20 couple years. And I certainly wouldn't expect you to comment on conflicts of
21 interest because there probably are legalities. But what things have been put
22 into place to make sure that this doesn't get unfocused and undisciplined going
23 forward?

1 LAY: Let me first say from the standpoint of LJM and Andy's role in that, obviously
2 the Board and of course even the lawyers and the auditors and everybody else
3 recognized that there would be an inherent conflict of interest there. And
4 basically, the Board developed and prescribed certain procedures and how in
5 fact that could - that in fact would in fact be dealt with and primarily in a way
6 that Enron's interest and Enron's shareholders' interests would never be
7 compromised. And I will also say that having checked just in the last several
8 days those procedures have been very rigorously followed. So, we do not -
9 we're very concerned the way Andy's character has been kind of loosely
10 thrown about over the last few days in certain articles as well as, of course, the
11 integrity of the company. But that we think in fact that all of the necessary
12 protections and procedures were put in place on the front end to make sure
13 that Enron shareholders were in fact fully protected. And I guess as a
14 question going forward, I mean certainly just in this environment, if nothing
15 else, I think everybody's becoming more disciplined in capital decisions. And
16 certainly we've had this discussion with our team. And I think surely probably
17 most companies wouldn't make as large investments in many areas as they did
18 one or two years ago, and that's certainly true with Enron. I mean, we're very
19 much in a very disciplined mode, at the same time making sure that our key
20 executives and our core businesses - our wholesale, retail and pipeline
21 businesses - know that they've got good projects or need for capital we're
22 going to provide it for them.

23 NORDBY: I appreciate this. I appreciate your willingness to have this call and would, for

1 what it's worth, urge you to continue to have them if confusion persists going
2 forward.

3 LAY: I appreciate that. And I think I did comment at the start that we do intend to do
4 this on a more regular basis here for a while because we do want to try to
5 make sure that the facts get out. We know there are a lot of rumors getting out,
6 a lot of speculation getting out, and obviously it's done a lot of damage to us
7 over the last few days. But we're trying our best to get the facts out.

8 NORDBY: Thanks.

9 UF: We'll next hear from David Fleischer from Goldman Sachs.

10 FLEISCHER: Hello, Ken.

11 LAY: Hi, David.

12 FLEISCHER: This was going to start out as a question if I had been called earlier, but I think,
13 you know, the several things that I was going to ask most about have been
14 asked. I guess what I'd like to do is make this partly a question, but more of a
15 comment and just point out, with all due respect, that, you know, what you're
16 hearing from some of these people and many others that you haven't heard
17 from in this call is that the company's credibility is being severely questioned
18 and that there really is a need for much more disclosure. And I appreciate
19 where it's real difficult for you to get into a lot of details on one specific issue
20 with one questioner, but that's exactly what I think needs to happen over, you
21 know, maybe a series of conference calls. There is an appearance that, you
22 know, you're hiding something or that you just don't want to - that maybe
23 there's something beneath the surface going on that is less than - that may be

1 questionable. I guess you need to do everything in your power to explain to
2 investors, to demonstrate to investors that their, your dealings are above board,
3 that the impacts and potential impacts are not negative for Enron, that
4 everyone isn't questioning all of these. And so, I would urge you to have daily
5 conference calls or, you know, almost daily conference calls to try to explain
6 this with outside auditors to, to - with whoever to really go through these
7 because I think it's absolutely critical to the company that you do that. You
8 know, the disclosure in the footnotes that - one of the questions that Rick said
9 the disclosure is there in the footnotes. I, for one, find the disclosure is not
10 complete enough for me to understand and explain all the intricacies of those
11 transactions. And that's why there are so many questions here. And I think
12 you're, you're now in a position where you really need to give us a lot more
13 information, notwithstanding the fact that you probably want to place limits
14 on that. But that would be my comment to you.

15 LAY: Well, David, I appreciate that. And certainly, as I also said earlier, there are
16 limitations on what we can or should talk about with LJM in particular or
17 related party transactions in general because of both lawsuits, potential
18 lawsuits as well as the SEC inquiry. But again, as you know, we are, I mean,
19 we're trying to be as transparent as we can. We're trying to provide
20 information. We're not trying to conceal anything. We're not hiding anything.
21 Probably we scrubbed and rescrubbed and rescrubbed things more in the last
22 couple months than we have in a long, long time, if ever. And as you know, in
23 the second quarter - well, first of all, the third quarter results we did in fact

1 break out our company in more segments providing more operating data. We
2 told you and everybody else that we're going to provide some, at least
3 allocation of capital numbers, some capital deployed numbers for all of those
4 different segments at year end so you can really begin tracking the returns on
5 investment in different segments. And indeed, I'm very sorry about the
6 misunderstanding to the extent there was a misunderstanding on the \$1.2
7 billion equity reduction. That - it was deemed that that was not necessary to
8 put in the earnings release or, for that matter, even put out publicly until the
9 10-Q, but we made the decision to put it out at the same time as the earnings.
10 And my conference call comments just to get everything out there, as we did
11 some other things in those comments. We're really trying to make sure that the
12 analysts and the shareholders and the debtholders really know what's going on
13 here. So, we are not trying to hold anything back.

14 FLEISCHER: OK, thank you. I do think we need a lot more here. Thank you.

15 UF: We will next hear from Jeff Dietert with Simmons.

16 DIETERT: With Simmons. I applaud your move towards more financial disclosure as
17 well. One of the things that came out in the financial disclosure was the global
18 assets portfolio, which is a \$6 billion portfolio with only about 12 million of
19 EBIT year to date. Could you talk about how you look at asset write downs in
20 this portfolio and what you intend to do to improve the earnings in the
21 portfolio and give some specifics if you can by some of the assets, in the
22 portfolio?

23 LAY: Well, number one, and again, as we said in the third quarter earnings call, we

1 in fact, both we and our outside auditors had already looked at all of our assets
2 to determine if we had impairments under the new goodwill accounting rules
3 that take effect first quarter next year. And as you probably recall, out of that
4 review, indeed there was somewhat less than \$200 million of adjustments that
5 will be required in the first quarter out of our whole portfolio. And clearly, if
6 there are impairments other than that, why then of course Arthur Andersen as
7 well as our internal accounting staff would require that we write that down
8 also. Now, as to those assets and earning so little, and I agree with that, I've
9 now put that, the operation of those assets under Stan Horton's group. Stan
10 Horton's been running our pipeline group and our utility group in North
11 America for quite some time. We think he's one of the best in the world
12 running those kind of assets, assets and businesses and getting the most return
13 out of them. I think, number one, he will find that, and he already has as a
14 matter of fact, just going through the budget reviews and everything he's done
15 over the last two months finding ways to improve earnings from that group of
16 assets. But secondly, as you well know, a lot of those assets are targeted for
17 disposition. And, of course, at least CEG RIO, which is a gas distribution
18 business in Brazil, it's, we sold that to Petrobras and that should close, as
19 Andy said, over the next 30 days. And we have, we're actually making
20 progress on a number of other assets. So, we hope both to increase returns and
21 cash flows from this group of assets at the same time that we reduce the total
22 dollars invested.

23 DIETERT: Are you looking at any additional capital investment in that portfolio?

1 LAY: It will be modest. Obviously, you'll continue to do what's necessary to
2 maintain reliability and safety. And there may be a few incremental
3 investments that will in fact enhance earnings from assets we already own.
4 But as we've said for some time, we are de-emphasizing our investments in
5 large infrastructure projects in developing countries, and that's what most of
6 those are.

7 DIETERT: Very good. Thank you.

8 LAY: Okay, thank you.

9 UF: We'll next hear from John Olson with Sanders, Morris & Harris.

10 OLSON: Good morning, gentlemen.

11 LAY: Good morning, John.

12 OLSON: I think it would be important in terms of credibility to restore it a little bit if
13 you would be so kind as to have Andy Fastow describe the role he played as a
14 general partner in LJM1 and LJM2 and how closely monitored he was and
15 how, what kind of review was imposed on the general partner role.

16 LAY: I think, John, and particularly with the SEC deciding that they're going to
17 come in and look at this, which as I said we welcome because this will finally
18 hopefully put all of these issues to rest. But I think because of that I would
19 prefer that Andy not get into too much detail as far as LJM. And let me say
20 there was a Chinese wall between LJM and Enron. And what I did say earlier
21 was that we - that the Board put in place and the company adhered to some
22 very strict procedures, which would ensure that any time anybody inside of
23 Enron was dealing with LJM there would be a process whereby Enron and its

1 shareholders' interests would be paramount. And again keep it in mind that
2 we did not have to put any projects or investments in LJM or any of the other
3 vehicles related to LJM. So, it's strictly discretionary. And obviously it had to
4 be in our, Enron's best interest before those investments or projects were put
5 in there.

6 OLSON: I, you know, the "Wall Street Journal" makes a circumstantial case on a
7 number of points. It might be helpful if you would be able to put out
8 something just answering them on a point-by-point issue at some point
9 yourselves. Second question, if I may, is the \$1.2 billion of equity that was
10 basically created through a synthetic transaction, why did Arthur Andersen
11 have you put it on the books? I mean, was this really equity or was it
12 something else, a piece of paper?

13 LAY: Rick?

14 CAUSEY: It did relate to a contingent - it was forward equity commitments and, in fact,
15 equity and contingent share commitments. And those were recorded and again,
16 obviously included in the earnings per share calculation until such time that
17 those were terminated.

18 OLSON: OK. Third question, it might be helpful, too, gentlemen, if you would make
19 available the financial statements of the various partnerships. I don't think that
20 it's any sweat off your backs in terms of disclosure or whatever. But if you
21 would be able to make available Whitewing and Atlantic and LJM1 and 2, I
22 think you would also go a long way towards settling any real or imagined
23 issues here. Final question, if I may, what is the maintenance capital spending

1 of the company now?

2 GLISAN: The maintenance capital for the balance of the year is approximately \$275
3 million.

4 OLSON: And is - can I annualize that to \$1.1 billion or \$1.2 billion or whatever?

5 GLISAN: I think that's dangerous. I guess I would prefer to address it again in a follow-
6 up call because I did not - I don't have that number at my fingertips and we
7 typically - it's straight annualizations. It doesn't necessarily hold.

8 OLSON: Thank...

9 LAY: But we will provide that, John. We'll be happy to provide that. And also, we
10 certainly will look at providing the financial statements on these other
11 structures.

12 OLSON: Thank you very much.

13 LAY: I think we're going to have to stop there, operator. And if I could just kind of
14 wrap it up. Of course, as we said in the release yesterday, we are continuing
15 to be focused on our core businesses and delivering value to our customers
16 around the world. But we also want to take the time we need to keep all of you
17 informed. We will set up another call in the next couple of weeks, maybe
18 sooner depending on events. Additionally, we will be posting on our Web site
19 frequently asking, frequently asked questions and answers in order to get
20 information out to you quickly starting late this afternoon. So, again, thanks
21 for participating in this call and thanks for the questions.

22 UF: That concludes today's conference. Thank you for your participation.